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**OFFICE OF THE INSPECTOR GENERAL**  
AMERICAN RECOVERY ACT FUNDS

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The Honorable Arnold Schwarzenegger  
The Honorable Edmund G. Brown Jr.

Dear Governor Schwarzenegger and Governor-elect Brown:

In my capacity as California Inspector General, overseeing the state's spending of the Federal Recovery Act funds, I have had the opportunity in the past 20 months to look up-close at many state agencies, departments and programs as well as federal and local government and private sector entities.

There are many accomplishments to tout, and the stimulus dollars have made a huge impact here in California. However, in the spirit of the Recovery Act itself, namely government doing things differently and better, I am compelled to highlight areas that need improvement and change. The transparency element ensures that leaders can be held accountable to fix what needs fixing and to fine tune programs that are not accomplishing the intended outcomes.

It is a challenge here in Sacramento to know exactly what needs fixing and how to go about it, because of the embedded culture of "we don't air our dirty laundry." This is so pervasive that when you, Governor Schwarzenegger, issued your executive order for departments to post their audits on your transparency website, there were all kinds of excuses used to avoid complying. For example, compliance and monitoring reviews were not posted because they were not considered to be official audits. Some departments claimed they needed many years to scan and post their reports.

Millions of dollars have been spent to produce these audits and reports for the express purpose of drawing attention to problems and deficiencies. If all these reports are buried, suppressed or ignored, nothing changes. It took a second executive order to finally get all departments to cooperate. The transparency website is an unprecedented big step toward bringing state operations into daylight.

When management knows that their organization or operation can be easily viewed by anyone and everyone, there is a tendency to do things smarter and better. If problems or weaknesses are revealed, there is an impetus to do something to address those problems.

As there has been resistance to making these reports easily accessible to the public, I have also faced constant resistance when trying to expose its own flaws. There is a misperception in government that unearthing problems is equivalent to "throwing someone under the bus." I believe that it is government's duty to find problems, put forward solutions and do so in plain view. I believe the taxpayers will support and rally around this approach.

Despite the fact that the state employs many hundreds of auditors, investigators, monitors, etc. the quality of oversight is not nearly as effective as it should be. Many departments consider their job, in essence, to be completed once the "buck is passed" out. There is little to no technical assistance offered to grantees having difficulties; there is little dedication to ensuring grant objectives are met, and evaluation and fine tuning of programs based on grant outcomes rarely occurs. The answer is not necessarily about hiring more auditors, it's about using existing resources in a more thoughtful and focused way.

In addition, when audits do see the light of day, their recommendations are often ignored, which is why we see repeat findings year after year in the Bureau of State Audits' (BSA) single audit and the same problems continually highlighted in reviews done inside state departments. For example, early ARRA risk assessments by the Federal Government Accountability Office, BSA, and the Office of State Audits and Evaluations all showed insufficient sub-recipient monitoring. But that same weakness existed in full force many months later as revealed in my office's reports on sub-recipients.

One of the glaring omissions in California's approach to the Recovery funding was the absence of an overarching plan that could have been created at the front end. While a Recovery Task Force was formed with representatives of the many departments receiving ARRA dollars, there was little coordination or integration amongst them.

For instance, the Department of Social Services (DSS) was entitled to receive up to \$1.8 billion in Temporary Assistance for Needy Families, Emergency Contingency Fund money, much of which was targeted at a subsidized employment program. We left over \$600 million of these dollars unused by California. If DSS had better coordinated its work with the Employment Development Department (EDD), chambers of commerce, the Office of Economic Development, the Governor's Small Business Advocate, etc. to do better outreach to the businesses community and potential employers, we could have helped more people with these unclaimed dollars.

An additional missing piece that should have been created at the outset is a list of steps and potential obstacles that typical projects have to go through to achieve completion. There are numerous hoops to jump through including permits, competitive bids, wage requirements, environmental regulations and historic preservation rules. Instead of proactively thinking out all possible "slowdowns" in advance so that they could be mitigated or avoided entirely, problems were recognized after they occurred, and scurrying to find fixes happened in crisis mode. The Recovery Act is all about moving quickly to get projects out on the street and put human beings back to work now...not just in time to meet federal expenditure deadlines.

In October of last year, I received a letter from a consortium of community health clinics which had concerns about delays in starting their construction projects. By law, the Office of Historic Preservation is required to sign-off before construction projects begin. Due to the Recovery Act there were marked increases in the number and type of projects resulting in a two months backlog. This could have been avoided if there had been a concrete plan to overcome these foreseeable hurdles. Every day of delay, Californians were waiting for these desperately needed jobs.

In the case of the \$25 million dollar revolving loan to green state buildings, we found that only 1% of the grant dollars had been expended almost a year later. Unfortunately, the Department of General Services had failed to plan accordingly and take all the necessary steps to have these projects up and running as quickly as possible. These slowdowns are counterproductive to the goals of ARRA to move expediently to put people back to work.

Clearly there are lessons to learned and lots of room for improvement also at the Federal level. Throughout this process there have been confusing and conflicting regulations and guidance issued by the Federal Government. States have struggled with spending the money quickly and also with complying with federal rules, which are often changed and amended.

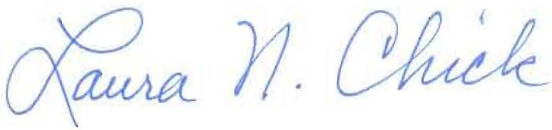
There has been difficulty in breaking the silo mentality and having Federal Departments work closely and collaboratively, similarly to what I found at the state level. For example, there was no real linkage between the Departments of Energy, Health and Human Services and Housing and Urban Development at the forefront to encourage Recovery dollars for weatherization of affordable housing projects. In addition instead of focusing on output widgets and umbers, there needs to be more attention on real outcomes.

When assessing the success of the Recovery Act, it is important to understand that the stimulus spending is not winding down yet. At least half of the ARRA funds for California will be spent in the next 12 months.

What has the Recovery Act accomplished so far? I think foremost it prevented California and the nation from falling off a cliff. Without the infusion of these federal dollars, there would have been much more widespread suffering.

The key legacy of the Recovery Act is easily summed up in one word: Transparency. There is no doubt that transparency is the lynchpin of improving government and empowering the people. The essential question is: What will we do with all this information? Will we use it to substantially improve the way government operates? This will be the ultimate test of the Recovery Act's success.

Sincerely,



LAURA N. CHICK  
Inspector General